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C O N F I D E N T I A L SECTION 01 OF 03 YEREVAN 000391

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SUBJECT: ARMENIA LOOKING TO IRAN TO REDUCE DEPENDENCE ON
RUSSIAN ENERGY RESOURCES

REF: A) 03 YEREVAN 152 B) 04 YEREVAN 1240 C) 04 YEREVAN

2019

Classified By: DCM A.F. Godfrey for reasons 1.4 (b, d).

SUMMARY

1. (C) In a February 25 meeting, Armenia's Minister of Energy, Armen Movsesian, told us that Armenia's energy market was too dependent on Russia, especially for the supply of gas, and that Gazprom has proved an unreliable source in the past. Armenia's number one energy priority is to complete the Iran-Armenia gas pipeline, which will reduce Armenia's dependence on Russia and the single poorly-maintained gas pipeline through Georgia. The Minister told us that Russia has been trying at every step to minimize the effect of the new pipeline, pressuring Armenia to reduce its size in order to keep Armenia dependent on Gazprom. He added that although Russian Foreign Minister Sergei Lavrov expressed interest in Russian participation in the Iran-Armenia pipeline project, Russian involvement in the pipeline would defeat its purpose. The Minister emphasized that energy diversity was the only purpose for the pipeline and that, caving to Russian requests, the GOAM had chosen to constrain the diameter of the pipeline to foreclose the possibility of onward sales outside Armenia which could threaten Gazprom's interests in the region (as well as being more distasteful to our Iran policy).
End Summary.

MINISTER PLEDGES TRANSPARENCY ON IRAN DEALINGS

2. (C) We met with Movsesian February 25 to discuss energy security policy in light of Armenia's developing economic relations with Iran. The Minister was keen to discuss Armenia's energy strategy and stated that Armenia would be completely transparent with us about the energy relationship between the two countries. On several prior occasions during the Iran-Armenia pipeline negotiations, the Minister acknowledged that the Iran-Libya Sanctions Act sets U.S. policy in this area and said that the Ministry was confident that the pipeline would not trigger sanctions under ILSA (Refs B and C).

HAPPINESS IS MULTIPLE PIPELINES

3. (C) The Minister painted a grim picture of Armenia's current energy insecurity. Currently, forty percent of Armenia's annual electricity consumption (and up to eighty percent of daily consumption during summer when the nuclear plant is closed) depends on gas supplied through Armenia's only gas pipeline, the Valdikavkaz gas line from Russia through Georgia to Armenia. The inevitable, albeit postponed, closure of Armenia Nuclear Power Plant (ANPP) will lead to 85 percent of Armenia's electricity supply depending on natural gas supply. The current gas pipeline is poorly maintained and traverses mountainous regions, and past disturbances have halted gas supply to Armenia for considerable time. (Ref A.) Besides the physical security of the line, the Minister expressed concern over Gazprom's ability to restrict gas delivery in order to improve its bargaining position with the GOAM, and its continued interest in delivering gas to Georgia, which will soon have the option of receiving gas from Baku.

RUSSIAN CONTROL THROUGH ENERGY

4. (C) The Minister stressed Russia's use of energy as political power. "As Georgia is more and more oriented to the west, Russia will try to use energy to make it a

dependent," he said. He expressed concern that Russia's relationship with Georgia could lead Gazprom to play games with the supply of gas to Georgia which in turn would affect the supply of gas to Armenia, as the two countries depend on the single line. The Minister pointed to Gazprom's past actions giving short shrift to Armenia's energy needs, including failing to deliver enough fuel during the demanding winter months, causing Armenia to draw gas from its strategic reserves. Responding to Armenia's strong reliance on this precarious source, Armenia made the construction of a second pipeline from Iran their number one energy priority. In September 2004, the GOAM finally succeeded in signing a deal with Iran whereby Iran will build its part of the pipeline and finance Armenia's portion in exchange for future delivery of electricity (Ref C). Besides allaying Armenia's concerns about the current pipeline's physical security, the Minister expects the Iran pipeline to end Gazprom's tough bargaining tactics and give Armenia more power to negotiate energy contracts.

SIZE MATTERS

15. (C) The Minister described how Russia lobbied Armenia to reduce the size of the pipeline (originally planned to be over 1 meter in diameter), saying at first that Armenia needed only a 253 millimeter pipeline and later that a 500 millimeter diameter pipeline would suffice. Armenia demanded at least 720 millimeters in diameter, which, according to the Minister, can deliver 2.4 billion cubic meters of gas per year, enough to serve 480,000 subscribers, the number in Armenia during Soviet times. According to the Minister Armenia currently consumes 1.7 billion cubic meters of gas per year, serving 282,000 subscribers. Note: Although Armenia may never reach its Soviet-era level of gas consumption, the Minister's numbers are still justifiable. Forty percent of Armenia's electricity currently comes from the Armenian Nuclear Power Plant (ANPP), which will be shut down over the next 10-15 years, and probably replaced by gas-fired generation.
End Note.)

"RUSSIAN CONTROL OF THE PIPELINE WOULD DEFEAT ITS PURPOSE"

16. (C) The Minister was dismissive of comments made by Russian Foreign Minister Sergei Lavrov during his February 17 visit to Yerevan that Russian participation in the Iran-Armenia pipeline is under consideration. The Minister pointed out that the pipeline's purpose is not to add capacity but to reduce dependence on Russia. Gazprom's participation in the pipeline, he said, would defeat its purpose. Two days earlier Deputy Minister of Energy Iosef Isayan told us that there was Russian interest in the pipeline, but that the Ministry believes the only reason that Russia wants to participate in the pipeline is to keep their strong bargaining position in the region.

MINISTER: PIPELINE NOT FOR TRANSIT

17. (C) The Minister stated emphatically that the GOAM had no intention of using the Iran-Armenia pipeline for transit to third countries. Despite early talk of building a pipeline that would also bring economic benefits as a transit line (one version called for a transit pipeline taking Iranian gas to Europe), GOAM officials acknowledge that they restricted the pipeline's diameter partly in response to Russian lobbying. Other factors, like the lack of financing and the apparent lack of an onward market also contributed to this decision. Armenia will continue to use the cheaper gas delivered through Gazprom's Georgian pipeline for its domestic energy consumption. It will use gas delivered through Iran to produce electricity that will then be re-exported to Iran (Ref B).

COMMENT: CAN ARMENIA FEND OFF RUSSIA?

18. (C) Having lobbied hard to constrain the size of the Iran-Armenia pipeline, Gazprom now wants control over the northern segment of the pipeline. While the Ministry's policy of reducing Armenia's dependence on Russia is well-founded, it is not clear that they will succeed in keeping Russia out. They already have caved to Russian lobbying to keep the pipeline small, despite ambitious talk of a larger transit pipeline. Their troubles resisting Gazprom's influence mirror their troubles resisting another Russian energy giant, RAO-UES that has managerial control over 80 percent of Armenia's generation capacity and is now trying

to take over the distribution network (septel). In both cases the Ministry of Energy has claimed a policy of diversifying the energy market, but the Ministry has not succeeded in transferring this policy into actual decisions. (Whether this is because the Ministry loses in power struggles with other interests or because Russia is the only one buying, we can't tell.) Both Gazprom and RAO-UES have publicly stated their intent to take on energy

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assets in Armenia as pieces of larger regional goals. We agree with the Ministry that the regional goals of Gazprom and RAO-UES may not always serve Armenia's interests.
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